



# WEEKLY ECONOMIC DIGEST



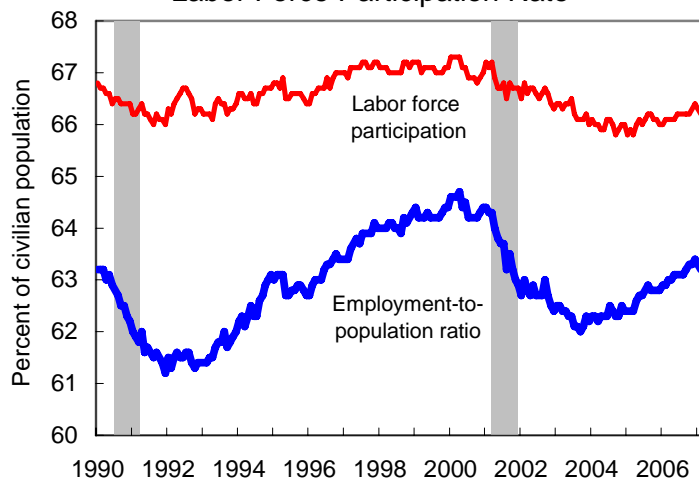
JOINT ECONOMIC COMMITTEE

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March 9, 2007

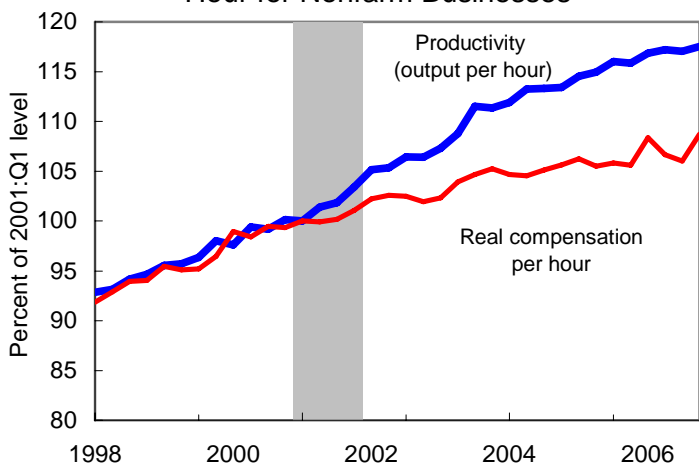
## Modest February Job Gains Provide Further Signs of a Slow Economy

Civilian Employment-to-Population Ratio and Labor Force Participation Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Productivity and Real Compensation per Hour for Nonfarm Businesses



Source: JEC calculations based on data from the Bureau of Labor Statistics, U.S. Department of Labor and the National Bureau of Economic Research.

Note: The gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Jobs growth slowed in February.** Total payroll employment at nonfarm establishments rose by 97,000 jobs last month, down from an increase of 146,000 jobs in January. Much of the February job growth reflected a rise of 39,000 jobs in public employment. Private-sector employment rose by only 58,000 jobs, the smallest monthly gain since November 2004.
- **The unemployment rate edged down last month as labor force participation fell.** The civilian unemployment rate declined by 0.1 percentage point to 4.5 percent in February. However, the labor force participation rate (the percentage of the population working or looking for work) fell 0.1 percentage point to 66.2 percent and the percentage of the population with a job also dropped by 0.1 percentage point, to 63.2 percent. Both measures remain about a percentage point below their levels in March 2001 when the recession began (see top chart).
- **Revised data show slower productivity growth and a sharp jump in labor costs in the fourth quarter.** Output per hour worked in nonfarm business rose at a 1.6 percent annual rate in the fourth quarter, according to revised estimates by the Department of Labor. At the same time, growth in real (inflation-adjusted) hourly compensation (wages plus benefits) was revised up to 10.5 percent at an annual rate. The spike in compensation appears to be at least partly related to temporary bonuses for highly paid individuals. Despite the latest jump in labor costs, growth in compensation has been far less than growth in productivity since 2001 (see bottom chart).
- **The trade gap narrowed slightly in January.** U.S. exports of goods and services rose by \$1.4 billion in January while imports fell by \$1.0 billion, lowering the trade deficit (imports less exports) by \$2.4 billion to \$59.1 billion. Nevertheless, the trade deficit remains near record levels, and growth of exports would have to exceed growth of imports by a substantial margin over a sustained period for the trade gap to narrow significantly.

| The Economy at a Glance                    | Feb   | Jan   | Dec   | Nov   | 2006<br>Qtr 4 | 2006<br>Qtr 3 | 2006<br>Qtr 2 | 2006<br>Qtr 1 | 2006  | 2005  |
|--|-------|-------|-------|-------|---------------|---------------|---------------|---------------|-------|-------|
| <b>Economic Activity</b>                   |       |       |       |       |               |               |               |               |       |       |
| Real GDP (% growth)                        | —     | —     | —     | —     | 2.2           | 2.0           | 2.6           | 5.6           | 3.3   | 3.2   |
| Industrial Production (% growth)*          | n.a.  | -5.8  | 6.2   | -1.2  | -0.8          | 4.0           | 6.5           | 5.0           | 4.0   | 3.2   |
| Capacity Utilization (level, %)*           | n.a.  | 81.2  | 81.8  | 81.5  | 81.7          | 82.3          | 82.0          | 81.2          | 81.8  | 80.2  |
| Civilian Unemployment Rate (level, %)      | 4.5   | 4.6   | 4.5   | 4.5   | 4.5           | 4.7           | 4.7           | 4.7           | 4.6   | 5.1   |
| Housing Starts (thousands)                 | n.a.  | 1408  | 1643  | 1565  | 1562          | 1714          | 1873          | 2123          | 1818  | 2073  |
| Real Disposable Personal Income (% growth) | n.a.  | 6.7   | 1.7   | 3.1   | 5.3           | 3.2           | -1.5          | 4.6           | 2.6   | 1.2   |
| Retail Sales (% growth)*                   | n.a.  | -0.1  | 15.3  | 5.1   | 0.3           | 3.7           | 3.1           | 13.2          | 6.3   | 7.2   |
| Personal Saving Rate (level, %)            | n.a.  | -1.2  | -1.4  | -1.1  | -1.2          | -1.4          | -1.4          | -0.3          | -1.1  | -0.4  |
| <b>Inflation &amp; Productivity</b>        |       |       |       |       |               |               |               |               |       |       |
| CPI-U Inflation, all items (% growth)*     | n.a.  | 2.4   | 4.9   | 0     | -2.1          | 3.1           | 5.0           | 1.9           | 3.2   | 3.4   |
| Core CPI-U Inflation (% growth)*           | n.a.  | 3.7   | 1.2   | 1.2   | 1.9           | 3.0           | 3.3           | 2.4           | 2.5   | 2.2   |
| Compensation per hour (% growth)           | —     | —     | —     | —     | 3.2           | 4.1           | 3.6           | 2.4           | 3.1   | 3.3   |
| Output per hour (% growth)                 | —     | —     | —     | —     | 1.6           | -0.5          | 1.2           | 3.5           | 1.6   | 2.1   |
| <b>Financial Markets</b>                   |       |       |       |       |               |               |               |               |       |       |
| T-bill Rate, 3-month (level, %)            | 5.03  | 4.98  | 4.85  | 4.94  | 4.90          | 4.91          | 4.70          | 4.39          | 4.73  | 3.15  |
| T-note Rate, 10-years (level, %)           | 4.72  | 4.76  | 4.56  | 4.60  | 4.63          | 4.90          | 5.07          | 4.57          | 4.80  | 4.29  |
| Federal Funds Rate (level, %)              | 5.26  | 5.25  | 5.24  | 5.25  | 5.25          | 5.25          | 4.91          | 4.46          | 4.97  | 3.22  |
| Dow Jones Industrial Avg (index level)     | 12631 | 12513 | 12378 | 12185 | 12175         | 11274         | 11189         | 10996         | 11409 | 10548 |

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\*Subject to revision over the next week.

### Upcoming Economic Releases:

- **Treasury Statement of Receipts and Outlays of the U.S. Government: February 2007** [Release: Monday, March 12]
- **Advance Monthly Retail Sales for Retail and Food Services: February 2007** [Release: Tuesday, March 13]
- **Manufacturing and Trade Inventories and Sales: January 2007** [Release: Tuesday, March 13]
- **U.S. International Transactions: Fourth Quarter 2006** [Release: Wednesday, March 14]
- **Producer Price Indexes: February 2007** [Release: Thursday, March 15]
- **Consumer Price Index: February 2007** [Release: Friday, March 16]
- **Industrial Production and Capacity Utilization: February 2007** [Release: Friday, March 16]